

Message Text

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ACTION EUR-08

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FM AMEMBASSY LISBON
TO SECSTATE WASHDC IMMEDIATE 9507

C O N F I D E N T I A L LISBON 8564

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DEPT PLEASE PASS TREASURY

E.O. 11652: GDS
TAGS: EFIN, EAID, PO
SUBJ: FINANCIAL ASSISTANCE TO PORTUGAL

1. PRIME MINISTER SOARES INVITED ME TO LUNCH TODAY ALONG WITH FINANCE MINISTER MEDINA CARREIRA. PURPOSE WAS TO EMPHASIZE THE IMPORTANCE GOP ATTACHES TO RECEIVING HALF OF THE \$300 MILLION IN DOLLARS RATHER THAN GOLD. THIS IMPORTANCE WAS UNDERScoreD BY FACT THAT TODAY IS THE DAY AFTER ELECTIONS AND THE DAY BEFORE SOARES' DEPARTURE FOR BRAZIL. SOARES APPEARED TIRED BUT EMPHASIZED REPEATEDLY THE SIGNIFICANCE HE ATTACHES TO THIS MATTER.

2. I WENT OVER WITH THEM THE DIFFICULTIES, WITH WHICH THEY WERE ALREADY FAMILIAR, THAT TREASURY HAS IN ACCOMMODATING THEIR DESIRES. I SAID, HOWEVER, THAT I WOULD FORWARD THEIR REQUEST TO WASHINGTON. IF IT TURNS OUT THAT WE ARE ABSOLUTELY UNABLE TO ALTER OUR POSITION, THE FINANCE MINISTER SAID, HE WONDERED ABOUT THE POSSIBILITY OF USING US GOLD AS GUARANTEE FOR PRIVATE SECTOR LOAN. HE NOTED THAT PRESENT NEGOTIATIONS ON PRIVATE SECTOR LOAN ARE DEAD. THEY COULD BE REVIVED IF USG GOLD WAS USED AS GUARANTEE. GOP WOULD EARMARK ITS GOLD AS GUARANTEE FOR US GOLD LOAN. IN THIS WAY, GOP WOULD NOT HAVE TO SELL GOLD, NOR WOULD ITS GROSS GOLD RESERVES DROP.

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3. I TOLD PRIME MINISTER AND FINANCE MINISTER I WOULD FORWARD THIS "FALL-BACK POSITION" TO WASHINGTON, AND WOULD HOPEFULLY RECEIVE COMMENTS PRIOR TO THEIR DEPARTURE. FINANCE MINISTER AND CENTRAL BANK PRESIDENT SILVA LOPES STILL PLAN TO BE IN WASHINGTON THURSDAY, DECEMBER 15, FOR NEGOTIATING SESSION. IN PRESENCE OF PRIME MINISTER, FINANCE MINISTER AND I AGREED DEPARTURE STATEMENT WOULD REFER ONLY TO CONTINUING CONSULTATIONS AND WOULD NOT SUGGEST SIGNATURE OF AN AGREEMENT. IF AGREEMENT IS THEN CONSUMMATED, ANNOUNCEMENT COULD BE MADE BY FINANCE MINISTER UPON HIS RETURN. SOARES VOLUNTEERED TO COME TO WASHINGTON FROM BRAZIL IF THIS WOULD HELP RESOLVE GOLD ISSUE.

4. COMMENT: FAILURE OF PRIVATE SECTOR LOAN TO MATERIALIZE HAS ADDED TO URGENCY OF NEGOTIATING FIRST STEP OF USG PROPOSED PLAN. IF OUR GOLD IS USED TO SECURE PRIVATE LOAN, HOWEVER, THIS MEANS TOTAL AVAILABILITY IN NEAR FUTURE FROM PRIVATE AND GOVERNMENTAL SOURCES IS IN ALL PROBABILITY LIMITED TO \$300 MILLION. WE DOUBT THIS AMOUNT WILL LAST GOP ANY LONGER THAN MAY OF NEXT YEAR.
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